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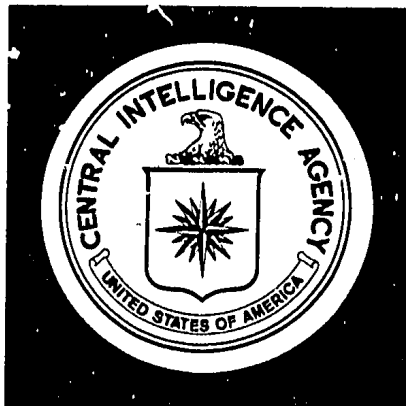
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Soviet and East European Foreign Exchange Earnings
from Western Tourism*

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ER IM 72-153
November 1972

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Travel to the USSR



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**CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
November 1972**

INTELLIGENCE MEMORANDUM

**SOVIET AND EAST EUROPEAN FOREIGN
EXCHANGE EARNINGS FROM WESTERN TOURISM**

Introduction

1. Western tourism in the USSR and Eastern Europe is still small in absolute terms, but it has become an increasingly important source of hard currency. This memorandum examines the growth of Western tourism in the USSR and Eastern Europe since 1964, the programs established to stimulate tourism, and prospects for 1972. Tentative estimates also are made of hard currency expenditures of Soviet and East European tourists in Western countries.

Conclusions

2. In 1971, about 4.6 million Western tourists – about twice the number in the mid-1960s – traveled to Eastern Europe and the USSR and spent an estimated \$226 million. These expenditures compare with an estimated \$48 million spent by Soviet and East European tourists traveling in the West.

3. Tourism is becoming an increasingly attractive earner of hard currency for the USSR and the countries of Eastern Europe, adding some 3% to earnings from commodity exports. Communist Europe has come to realize that it is generally easier to increase exports of tourist services than of merchandise to the developed West, that the tourist industry requires less investment relative to sales volume, and that this industry has a relatively short payoff period. As a result, these countries are upgrading and expanding tourist facilities and services to increase hard currency earnings. Each country is actively promoting its scenic and cultural peculiarities, and most offer special tourist rates of exchange and other inducements to attract Western tourists.

Note: This memorandum was prepared by the Office of Economic Research.

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4. The planned expansion of tourist facilities faces the same delays as other building programs in the USSR and Eastern Europe. To help offset shortcomings, the East European countries have arranged for Western firms to supply capital, materials, and management know-how for new tourist facilities. In some cases, foreign firms have been hired to do the building. Moreover, several large Western hotel chains are reported to be interested in limited joint ventures in the Soviet Union and Eastern Europe.

5. It is not possible to make a meaningful long-term projection for Western tourist expenditures in the USSR and Eastern Europe. Revenues from tourism are to a large extent influenced by general economic conditions in the developed West and the prevailing state of East-West relations. Since 1964, however, there has been a general upward trend in worldwide tourist spending and Western tourist spending in Communist Europe, which will probably continue for the foreseeable future.

Discussion

Development of Tourism, 1964-71⁽¹⁾

6. In 1971, about 4.6 million of the 18 million foreign tourists who traveled to Eastern Europe and the USSR were from Western countries (see Table 1)⁽²⁾ - about twice the number in the mid-1960s. Bulgaria is the leading Communist market for Western tourists (more than one million a year),⁽³⁾ but the USSR is a close second and is rapidly catching up, while Czechoslovakia (once the Western favorite) has been hurt by the Soviet invasion and now hosts few more tourists than in 1964. Western tourism in Hungary and Romania has grown rapidly and become substantial. East Germany still has few Western visitors.

7. The August 1968 Warsaw Pact invasion of Czechoslovakia and the events that led to it probably cost the USSR and Eastern Europe \$15 million to \$20 million in tourist receipts during 1968 - that is, the amount by which tourist earnings⁽⁴⁾ would have increased under normal conditions. As it was, gross receipts from Western tourism in 1968 were only slightly

1. The sources used to estimate the number of tourists and foreign exchange earnings from tourism are discussed in the Appendix.

2. The remaining 13.5 million tourists are virtually all intra-bloc (East European and Soviet) travelers.

3. About one-half of the Western tourists to Bulgaria are across-the-border visitors from Turkey who spend a fraction per stay compared with "conventional" tourists. (see Table 2).

4. The term **tourist earnings**, as used in this memorandum, refers to gross earnings. These earnings exclude charges for visas and transportation.

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Table 1

**Western Tourists Visiting the USSR and Eastern Europe
by Country of Visit**

	Thousand Persons							
	1964	1965	1966	1967	1968	1969	1970	1971
Total	2,258	2,695	3,114	3,311	3,326	3,648	3,998	4,578
USSR	488	610	668	758	593	672	761	900 ^a
Eastern Europe	1,770	2,085	2,446	2,553	2,733	2,976	3,237	3,678
Bulgaria	531	637	734	738	801	1,017	1,099	1,180 ^a
Czechoslovakia	725	618	755	838	824	725	731	792
East Germany ^b	114	136	157	173	155	171	190 ^a	210 ^a
Hungary	200	301	356	356	373	448	560	683
Poland	145	190	216	236	226	243	279	313
Romania	55	203	228	212	354	372	376 ^a	500 ^a

a. Preliminary.

b. Excluding family visits by West Germans and West Berliners but including visitors from these areas to the Leipzig trade fairs.

higher than in 1967 (see Table 3). The USSR and Czechoslovakia incurred most of this loss. The decline in Soviet earnings was not as large as the decline in the number of tourists, however, because of the change in the "nationality-mix" of the Westerners traveling to the USSR. Nearly all of the decline originated with low-spending excursionists from Finland and Norway (see Table 4). Czechoslovak tourism, suffering nearly the same financial loss in 1968 as the USSR, has since lagged seriously. To bolster tourism, Czechoslovakia in mid-1969 reinstituted the policy of freely issuing tourist visas at the border, and in May 1970 the minimum amount Western tourists must spend per day while visiting Czechoslovakia was increased from \$3 to \$5. The rest of Eastern Europe, however, suffered little or no decline in tourist earnings because of the invasion.

8. The number of tourists from these Communist countries to the West also increased rapidly following the partial relaxation of travel restrictions by the various Communist regimes in 1964. Growth was

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Table 2

**Western Tourists Visiting the USSR and Eastern Europe
by Country of Origin**

Thousand Persons							
	1964	1965	1966	1967	1968	1969	1970 ^d
Total	2,258	2,695	3,114	3,311	3,326	3,648	3,998
Austria	642 ^b	416	493	535	517	469	N.A.
Finland ^d	192	262	309	335	202	175	N.A.
France	102	140	201	225	194	199	N.A.
Germany , West	355	505	680	761	766	852	N.A.
Italy	40	61	86	107	151	182	N.A.
Japan	N.A.	N.A.	33	32	33	48	N.A.
Sweden	43	63	62	80	98	124	N.A.
Turkey ^d	245	356	374	340	383	514	N.A.
United Kingdom	92	105	120	126	146	154	N.A.
United States	80	103	140	147	148	191	N.A.
Other	467	684	616	623	688	740	N.A.

a. The total is derived from data for individual Communist countries. Data for Western tourists, by country of origin, are not available.

b. Including excursionists.

c. Largely excursionists to the Soviet Union.

d. Largely excursionists to Bulgaria.

particularly large in 1969, when the total number of Eastern tourists rose to 1.2 million from about 850,000 in 1968 (see Table 5). Czechoslovakia accounted for the bulk of this increase when, for a short time, the post-invasion regime maintained a very liberal policy on travel in the West. This sudden surge in travel to the West resulted also in an estimated deficit – the first for any Communist country – of about \$600,000 in Czechoslovak 1969 tourist earnings. Shortly thereafter, however, strict controls on travel were reinstated, and the number of Czechoslovaks traveling to the West dropped sharply, precipitating a sharp drop for the East as a whole to 732,000 in 1970. For 1971 the total is estimated at 821,000. During 1964-71, hard-currency expenditures by Soviet and East European tourists in the West rose from an estimated \$27 million to \$48 million (see Table 6).

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Table 3

**Gross Revenues from Western Tourism
in the USSR and Eastern Europe**

	Million US \$							
	1964	1965	1966	1967	1968	1969	1970	1971
Total	87.0	112.6	128.2	141.2	144.3	171.1	191.9	225.7
USSR	36.8	45.9	50.1	55.4	52.4	70.5	81.0	96.0 ^a
Eastern Europe	50.2	66.7	78.1	85.8	91.9	100.6	110.9	129.7
Bulgaria	15.0	15.1	19.3	21.0	22.2	26.9	28.1	30.8 ^a
Czechoslovakia	13.2	17.1	17.8	22.6	19.7	17.4	17.5	19.0
East Germany ^b	4.0	4.9	5.6	6.5	5.8	6.2	7.0 ^a	8.0 ^a
Hungary	8.8	12.2	15.7	15.7	17.5	21.6	26.9	32.8
Poland	6.4	7.2	8.3	9.4	9.0	9.9	12.5	14.1
Romania	2.8	10.2	11.4	10.6	17.7	18.6	18.9 ^a	25.0 ^a

a. Preliminary.

b. Excluding spending by West Germans and West Berliners, except by those traveling to the Leipzig trade fairs. Inclusion of this spending would increase total hard currency revenue by about 10 times.

Table 4

**Western Tourists Visiting the USSR
by Major Country of Origin**

	1 thousand Persons			
	1967	1968	1969	1970 ^a
Total	758	593	672	761
Finland	328	192	163	167
Norway	47	28	13	28
Other West	383	373	496	566

a. The last year for which detailed data are available.

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Table 5

**Soviet and East European Tourists
Visiting the West^a**

	Thousand Persons							
	1964	1965	1966	1967	1968	1969	1970	1971
Total	456	503	558	667	850	1,213	732	821
USSR	55	60	80	80	90	100	125 ^b	140 ^b
Eastern Europe	401	443	478	587	760	1,113	607	681
Bulgaria	15	27	29	35	46	49	45	50 ^b
Czechoslovakia	150 ^c	168	209	303	450	715	188	149
Hungary	157	165	142	143	151	169	185	216
Poland	72	76	91	97	92	108	114	191
Romania	7	7	7	9	21	72	75	75

a. Excluding East Germany.

b. Preliminary.

c. Estimate.

Table 6

**Estimated Gross Expenditures by Soviet and
East European Tourists in the West^a**

	Million US \$							
	1964	1965	1966	1967	1968	1969	1970	1971
Total	22	24	27	31	39	53	42	48
USSR	8	9	12	12	14	15	19	21
Eastern Europe	14	15	15	19	25	38	23	27
Bulgaria	^b	1	1	1	2	2	1	2
Czechoslovakia	3	3	4	6	9	18	4	3
Hungary	6	7	6	7	9	12	13	15
Poland	4	4	4	5	4	4	3	5
Romania	^b	^b	^b	^b	1	2	2	2

a. Excluding East Germany.

b. Less than \$0.5 million.

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Importance of Earnings from Western Tourism

9. Western tourism in Eastern Europe and the USSR is small in absolute terms, but it is an increasingly important source of hard currency. Between 1964 and 1970, Western tourist receipts grew at an average annual rate of 14.1%, compared with commodity exports to the developed West, which averaged 11.1% per year. Income from Western tourism, while equal to only 3% of the value of Soviet and East European exports to the developed West in 1970, is a more significant source of revenue for some of the Communist countries. Bulgaria's Western tourist receipts, for example, were equal to 11% of its exports to the developed West in 1970. Soviet and East European hard currency indebtedness now totals about \$4 billion, about half of which is Soviet. This debt picture makes earnings from Western tourism an increasingly attractive addition to the hard currency income of these countries, particularly at a time when they face difficulty in expanding exports to the West.

Promoting Western Tourism in the USSR and Eastern Europe

10. The lack of good-quality hotel rooms is the most serious impediment to increasing Western tourism in the USSR and Eastern Europe. In late 1971 a Pravda article by a Moscow architect complained that Soviet hotels are too few and too expensive⁽⁵⁾ and suffer from primitive



Visitors in Moscow Invariably Come to the Walls of the Ancient Kremlin, to Red Square

5. Western tourists pay from two to ten times what Soviet citizens pay for the same room.

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U.S.S.R. and Eastern Europe



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management techniques. The USSR and the East European countries now have programs under way to step up hotel construction to attract more hard currency tourists. Intourist, the Soviet travel agency, reportedly is mounting a \$300 million expansion campaign during the current five-year plan (1971-75), including the construction of 30 large hotels, 12 motels, and 50 restaurants -- all intended for Western tourists. These projects will add some 80,000 beds to the Intourist hotel chain.

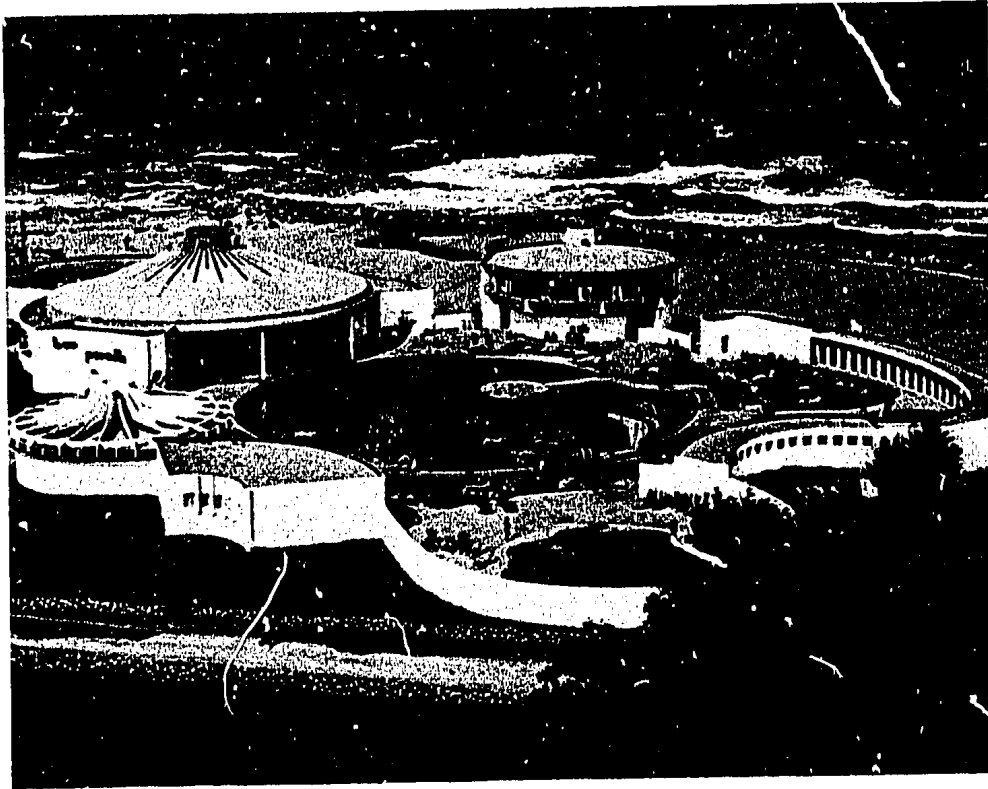
11. Among the countries of Eastern Europe, Bulgaria's building program for 1972 includes 17 new hotels, two motels, and various other accommodations, totaling some 3,500 beds. In addition, a new 50,000-bed resort on the Black Sea is reported in the planning stage. In Czechoslovakia, increasing Western tourism has stepped up the demand for new facilities. Hotels are being built in Prague, and especially in the High Tatra Mountains and spa centers. However, the director of the Secretariat for Tourist Travel reported in early 1972 that the expansion of accommodations is unsatisfactory and only about 2,000 additional beds will be made available in 1972. Hotel construction is not as widespread or as large-scale in East Germany as in some of the other East European countries. The 26 hard currency hotels in the state-owned Interhotel chain provide only 12,000 beds. Plans call for an increase to 17,500 beds by 1975, with the opening of new facilities and the expansion of existing ones.

12. Hungary is among the most vigorous and successful of the East European countries in promoting hotel construction. The recent heavy investment in constructing resorts in the Lake Balaton region is aimed mainly at Western tourists. Three first-class tourist hotels have also opened recently in the Budapest area. Poland is stepping up hotel construction after years of stagnation. Three large, modern hotels are planned for Warsaw, the first of which should be completed by the end of 1973. Another 24 hotels, totaling 5,700 rooms, are to be built in other Polish cities before the end of 1975. Romania is probably the most active on a per capita basis in expanding its investment in new tourist facilities. At least six new tourist hotels and motels have been opened recently in areas outside of Bucharest, and three large hotels are planned for the capital itself. In addition, Black Sea coast facilities for tourists are being developed further.

13. The planned expansion of tourist facilities faces the same problems as other building programs in the USSR and Eastern Europe -- costly construction delays, shoddy workmanship, and inferior materials and equipment. Recognizing these shortcomings, some of the East European countries have made arrangements with Western firms to supply capital, materials, and management for new tourist facilities. In some instances, foreign contractors have been hired -- especially Yugoslavs -- to do the building. One of the most attractive hotels in the USSR, the Viru Hotel in Tallin, was designed and built by the Finns. Prague, Budapest, and

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Romania's Black Sea Coast is a Major Attraction for Western Tourists

Bucharest each have an Inter-Continental Hotel, a subsidiary of Pan American World Airways. Each hotel was financed through a foreign subsidiary of Tower International, a US firm. Other large hotel chains such as Holiday Inn, Sheraton, and Hilton International reportedly are interested in limited joint ventures in the Soviet Union and in Eastern Europe.



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Special Inducements

15. The USSR appears to have relatively little difficulty in attracting Western tourists in spite of poorly managed tourist facilities, barely adequate food, indifferent treatment of the tourists, and other shortcomings. For the most part, those who travel to the USSR are drawn by curiosity, and they will spend more than they would in, say, Spain. Few will return if one is to judge by the almost universal comment of Western travelers to the USSR that they will never return. Thus, little more than additional physical facilities to accommodate more tourists will be required to bring in larger numbers of Westerners to the USSR. The problem is more difficult for the East European countries. To compete with a country like Spain, they must offer cheaper vacations. There is much less of the curiosity factor, particularly for West Europeans who make up the bulk of Western tourists. Table 7 compares average tourist expenditures per stay.

Table 7

Western Tourists' Expenditures Per Stay^a

1970	
	<u>US \$</u>
Portugal	71
Spain	74
Italy	129
Greece	138
USSR	106
Bulgaria	26
Czechoslovakia	25
East Germany	28
Hungary	48
Poland	45
Romania	50

a. Including one-day or two-day excursionists and excluding transits. Per day estimates are not available for Eastern Europe.

16. Aside from the fact that the lower expenditures in some East European countries (Czechoslovakia and Hungary, for example) reflect a significant number of low-spending across-the-border tourists, East European vacations are cheaper for several reasons. One is the favorable rates of exchange for tourists. Only the USSR and East Germany do not offer such rates. In some cases, premiums of 200% or more above the official rate

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are offered. The Poles, for example, allow 22.08 zlotys per US tourist dollar. The black market rates of exchange are much higher than even the tourist rate. Although black market trading of dollars appears to be insignificant because of tight currency controls and severe penalties, some dealings in black market currency apparently take place, particularly at seaports among foreign seamen. Goods for tourists with hard currency are also priced much lower than for the local populace and can be obtained at special hard currency shops.

17. In recent years, other services and amenities have been introduced to encourage Western tourists to visit Eastern Europe and the Soviet Union. Western tourists in the USSR can now use Diner's Club and American Express credit cards to charge all expenses at Intourist hotels, restaurants, and car rental points, including Hertz Rent-a-Car service. Other East European countries have offered similar services for several years.

Prospects

18. It is not possible to make a meaningful long-term projection for Western tourist expenditures in the USSR and Eastern Europe. Revenues from tourism are to a large extent influenced by general economic conditions in the developed West and the prevailing state of East-West relations and thus are subject to wide fluctuation in growth rates. However, since 1964, spending has taken a general upward trend in worldwide tourism and in Western tourism in the USSR and Eastern Europe (see Tables 8 and 9). This trend probably will continue during the 1970s.

19. Western tourist experts expect a continued moderate growth during 1972 in international tourism, including Western tourist travel to the USSR and Eastern Europe. Prospects for increased Western tourism are brightest in those East European countries such as Romania, where the leadership has recognized the value of the tourist dollar and has given a special priority to its cultivation. Moreover, the recent summit meetings and ongoing talks for further East-West cooperation generally have enhanced tourism prospects in the short term, particularly in the USSR.

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Table 8

Growth of Revenues from Worldwide Tourism^{a]}

Year	Receipts (Billion US \$)	Growth Rate (Percent)
1964	10.1	15
1965	11.8	17
1966	13.2	12
1967	13.4	2
1968	13.9	4
1969	15.5	12
1970	18.0 ^{b]}	16
1971	20.5 ^{b]}	14

a. Excluding receipts from international fare payments and receipts from domestic tourism.

b. Estimate.

Table 9

Growth of Revenues from Western Tourism to the USSR and Eastern Europe^{a]}

Year	Receipts (Million US \$)	Growth Rate (Percent)
1964	87.0	48
1965	112.6	29
1966	128.2	14
1967	141.2	10
1968	144.3	2
1969	171.1	19
1970	191.9	12
1971	225.7	18

a. Excluding receipts from international fare payments and visas.

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Methodological Note

Estimates of foreign exchange earned from Western tourists for each of the countries considered are based on official statements and tourism earnings statistics for Czechoslovakia, Hungary, and Poland for selected years during 1960-70.* Average spending per tourist is derived from dividing reported earnings by the number of Western tourists to a particular country. This figure can be further refined by considering the remoteness and size of the country visited and the Western tourists' countries of origin.

Spending per stay by a Western tourist in Czechoslovakia averages about \$25; in Hungary, \$48; and in Poland, \$45. Because of the greater remoteness of Bulgaria, Romania, and the USSR, tourists tend to stay longer and, therefore, to spend more. Western tourist expenditures per stay in Romania are estimated at \$50. Turkish tourists to Bulgaria are across-the-border visitors who spend an estimated \$3 per stay; it is estimated that other Western tourists spend about \$50 per stay. Both remoteness and size characterize the USSR, and tourist income per stay varies widely with country of origin. Tourists from the United States are estimated to spend an average of \$250 per stay; Finns and Norwegians, \$10 per stay; and other Western tourists, \$112 per stay in 1964 and \$125 thereafter.

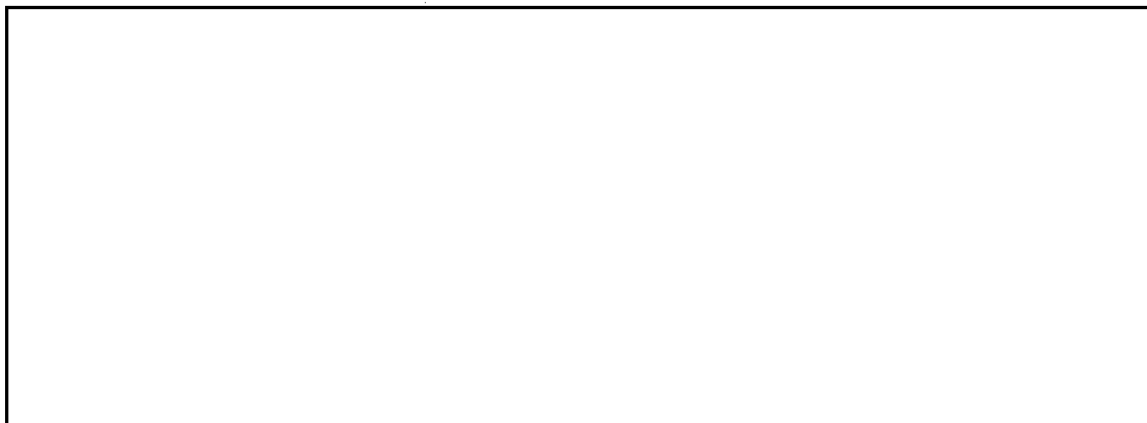
Estimates of East Germany's earnings from Western tourism are based on spending by non-German Western tourists (excluding visitors to the Leipzig trade fairs). The latest data available show average spending of \$7 per day, with the length of stay increasing from about two days in 1963 to four days in 1968. It is estimated that visitors to the Leipzig trade fairs, including West Germans and West Berliners, stay an average of seven days and spend something more than \$6 per day. Data are insufficient on the number of West Berliners and West Germans otherwise traveling to East Berlin and East Germany; therefore, they are excluded from this study. Inclusion of the East German revenues from these sources conceivably could increase present total estimates by about 10 times.

* These earnings exclude visa fees and transportation earnings.

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